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~~1 MR. BRADY: And then here are those redacted and~~

~~2 unredacted Exhibit 7.~~

~~3 (Documents tendered.)~~

~~4 JUDGE SAINOT: Great. Thanks. Okay.~~

~~5 Ms. Klyasheff, thank you.~~

6 CROSS EXAMINATION

7 BY

8 MS. KLYASHEFF:

9 Q Dr. Rearden, I'm Mary Klyasheff and I'm
10 representing Peoples Gas.

11 Your testimony addresses what's been
12 called the GPAA during the course of this proceeding.
13 I'm using the term GPAA to refer to a Gas Purchase
14 and Agency Agreement between Peoples Gas and Enron
15 North America Corporation that was signed in
16 September 1999. Is that your understanding of that
17 acronym GPAA?

18 A Yes.

19 Q On Page 8 of your direct testimony you
20 discuss the resale provision in the GPAA.

21 A Yes.

22 Q By resale provision, I'm referring to a

1 provision under which Peoples Gas could sell gas back
2 to Enron North America that Peoples Gas had purchased
3 or was obligated to purchase under the GPAA. Is that
4 consistent with your use of the term resale
5 provision?

6 A Yes.

7 Q You describe the resale provision on Page 8
8 as the Gas Daily index less a penalty; is that
9 correct?

10 A Yes.

11 Q Is Gas Daily a publication that publishes
12 gas prices?

13 A That's my understanding.

14 Q Are you familiar with the format in which
15 Gas Daily publishes prices during the reconciliation
16 year?

17 A I have seen the publication Gas Daily. I
18 wasn't looking at it during the reconciliation
19 period. I'm not sure exactly what you mean by
20 format.

21 Q Would I refresh your recollection if I were
22 to show you a response to a data request submitted by

1 the company?

2 A Yes.

3 MS. KLYASHEFF: May I approach the witness?

4 JUDGE SAINOT: Yes, you may.

5 MS. KLYASHEFF: Q. Does that data response
6 refresh your recollection?

7 A Yes.

8 Q Do you agree that Gas Daily included what
9 it called a midpoint price?

10 A I believe that's correct.

11 Q Did it also include a range of prices
12 called the common range?

13 A I believe that's correct.

14 Q Do you know what the midpoint price
15 represented relative to the common range?

16 A I believe it's a weighted average.

17 Q A weighted average of the common range?

18 A Within the common range.

19 Q Is it your understanding that the common
20 range represented transactions that had occurred at
21 the extremes of the range or along the spectrum of
22 the range?

1 A It's my understanding -- excuse me. It's
2 my understanding that the common range excludes some
3 -- I guess I call them -- outlayers.

4 Q Do you know if Gas Daily also publish
5 something called an absolute range?

6 A I believe so.

7 Q Do you know what the absolute range
8 referred to?

9 A Not -- no.

10 Q When you use the term "penalty" on Page 8
11 of your direct testimony with respect to the resale
12 provision, are you referring to any price less than
13 the gas daily midpoint?

14 A Yes. I assume the gas daily price is a
15 good indicator of the price that's favorable in the
16 market.

17 Q Referring to Page 30 of your direct
18 testimony, Line 794, and the phrase "average
19 conditions existing in the market at the time is
20 used."

21 A Yes.

22 Q Is that the same as your definition of what

1 the midpoint represents?

2 A Yes.

3 Q If a gas seller were to agree to sell gas
4 at the Chicago city gate at a price equal to the Gas
5 Daily Chicago midpoint, minus 2 cents, would you
6 describe that price as being the gas daily less a
7 penalty?

8 A It would depend on the other nature of the
9 trade.

10 Q What other factors would be significant?

11 A Well, if it had a provision that also
12 include something like an SIQ, then I might consider
13 that a penalty.

14 Q So a sale that occurs at some price less
15 than the midpoint does not necessarily reflect a
16 penalty to the seller?

17 A No.

18 Q Turning to Page 13 of your rebuttal
19 testimony, you responded to some testimony that had
20 been offered with respect to a liquidity premium; is
21 that correct?

22 A Can you point me a little more specific.

1 Q Rebuttal testimony Page 13 beginning at
2 about Line 274.

3 MR. BRADY: This is Exhibit 12, Ms. Klyasheff,
4 or Exhibit 7?

5 MS. KLYASHEFF: Twelve.

6 THE WITNESS: Yes.

7 MS. KLYASHEFF: Q. What is your definition of
8 the the term "liquidity premium?"

9 A In general?

10 Q In the context of how you responded in your
11 testimony.

12 A When Mr. Graves proposes to add a liquidity
13 premium onto the regional price or the price in the
14 field or price at the delivery point, I believe his
15 justification was that the utility buy in large
16 quantities at a point that doesn't have much volume
17 would drive the price above index.

18 Q If a liquidity premium were included in
19 your analysis, all else being equal, would that
20 effect your analysis of the cost of benefit of the
21 GPAA?

22 A Subject to check, I don't think so.

1 Q If you added something to the various
2 locational indices, it would not effect your
3 analysis? Did I understand that correctly

4 A Well, it would change the dollar figure by
5 which the GPAA was imprudent, but I still think it
6 would be a negative number.

7 Q In what direction would it change the
8 dollar figure?

9 A Well, it would look more favorable to the
10 GPAA.

11 Q But it was your testimony that the company
12 witnesses had not demonstrated that using a liquidity
13 premium was appropriate?

14 A That's correct.

15 Q On Page 8 of your rebuttal testimony you
16 refer to an analysis prepared by Peoples' employee
17 named Roy Rodriéguez.

18 A Yes.

19 Q And you testified that the Commission
20 should give his method, and information, and his
21 analysis considerable weight; is that correct?

22 A Can you point me to the specific point,

1 please?

2 Q I believe it's Lines 162 and 163.

3 A Yes.

4 Q Did Mr. Rodriaguez' analysis include a
5 liquidity premium for certain purchases?

6 A Yes, it does, but it also doesn't include a
7 lot of analysis -- a lot of the other terms within
8 the GPAA. One of the reasons that the study should
9 be given weight is because it was based on data that
10 the company collected on its own and was collected
11 before they signed the GPAA. That means I think that
12 we should give the analysis some weight but that
13 doesn't mean that everything in it I agree with and
14 it doesn't mean that I follow the way he analyzed the
15 contract point by point. I have some other
16 differences between his analysis and mine as well.

17 Q You describe the analysis as being the
18 company. When you said company, which company did
19 you mean?

20 A Well, I was -- excuse me. Well, I was
21 referring to Peoples Gas, but I realize
22 Mr. Rodriaguez went for the holding company, but he

1 was doing it -- excuse me -- for a utility contract.

2 He was doing the analysis for a utility contract.

3 Q And it's your testimony that the Commission
4 should give the analysis considerable weight but only
5 parts of the analysis?

6 A Yes, the parts I like.

7 (Laughter.)

8 MS. KLYASHEFF: I don't have to ask the next
9 question.

10 ~~MR. MULROY: You sound like one of my kids.~~

11 MS. KLYASHEFF: Q. Turning to Page 37 of your
12 direct testimony and a different subject matter, on
13 this page you are discussing what I think has been
14 called Transaction 19.

15 A Yes.

16 Q And just so we're talking about the same
17 transaction, was that an off-system sale under which
18 Peoples Gas sold \$50,000 deccatherms per day of gas
19 to Enron North America in December 2000?

20 A Yes.

21 Q Referring to the bottom of page, beginning

22 ~~on Line 989, you testified that the company sold gas~~

1 ~~revenue without physical assets?~~

2 ~~A Yes.~~

3 Q Prior to joining the Commission, did you
4 have any experience negotiating gas purchase or sale
5 agreements?

6 A No.

7 Q Do you have any experience managing a
8 natural gas storage field?

9 A No.

10 Q Have you scheduled or nominated gas supply
11 on the interstate pipeline system?

12 A No.

13 ~~MS. KLYASHEFF: I have no further questions.~~

14 Thank you.

15 JUDGE SAINSOT: Anyone else?

16 MR. REDDICK: Yes.

17 JUDGE SAINSOT: How long are you going to be,
18 Mr. Reddick? Is this short or long?

19 MR. REDDICK: This is short --

20 JUDGE SAINSOT: Okay.

21 ~~MR. REDDICK: -- and I'll speak quickly.~~

22